

The Influence of Oil Price Fluctuations on Macroeconomics Variables of the Kingdom of Saudi Arabia

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Abstract : This paper empirically investigates the influence of oil price fluctuations on the key macroeconomic variables of the Kingdom of Saudi Arabia using unrestricted VAR methodology. Two analytical tools- Granger-causality and variance decomposition are used. The Granger-causality test reveals that almost all specifications of oil price shocks significantly Granger-cause GDP and demonstrates evidence of causality between oil price changes and money supply (M3) and consumer price index percent (CPIPC) in the case of positive oil price shocks. Surprisingly, almost all specifications of oil price shocks do not Granger-cause government expenditure. The outcomes from variance decomposition analysis suggest that positive oil shocks contribute about 25 percent in causing inflation in the country. Also, contribution of symmetric linear oil price shocks and asymmetric positive oil price shocks is significant and persistent with 25 percent explaining variation in world consumer price index till end of the period.

Keywords : Granger causality, oil prices changes, Saudi Arabian economy, variance decomposition

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